PHILIPPINES ECONOMIC & FINANCIAL WRAP-UP

NOVEMBER 24 - DECEMBER 21, 2001

Summary

The peso traded within a higher band during the weeks of November 26-December 14 before strengthening appreciably during the December 18-21 period to hit intra-day highs not seen since mid-August. Declining inflation (4.4% year-on-year in November, the lowest in sixteen months) and a relatively stable currency prompted monetary authorities to cut overnight and interbank rates and reserve requirements, pushing down domestic interest rates and bolstering stock prices. The commercial banking system's ratio of non-performing loans hit a new post Asian-crisis high of 18.81% as more loans gone sour combined with a contraction in banks' loan portfolio. We also report on recent trade statistics, which showed the country's October export receipts down 13.5% year-on-year and the import bill off by 16.9% from the October 2000 level. President Macapagal-Arroyo called for unity in facing the economic challenges at a national economic summit on December 10. End Summary.

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). Our next update will be available on or about January 11. We provide a longer and more detailed review of the Philippine economy in the October 2001 edition of our thrice-yearly Philippine Economic Outlook, which is also available on our web site.

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FOREX REPORT

The peso traded within a stronger band of P51.84-P52.08/US$ during the three weeks of November 26-December 14, after trading in range of P51.90-P52.18/US$ from November 12-23. The peso subsequently strengthened further during the week of December 18-21, hitting an intra-day high of P50.85 on December 20 -- the highest intra-day rate since mid-August 2001. Currency traders attributed the peso's recent strength to a combination of seasonally weaker foreign exchange demand, a pre-holiday surge in overseas workers' remittances, late-year profit-taking, and unloading of foreign currency by a number of banks to meet the public's heavier demand for cash during the Christmas and new year holidays. The peso closed at P51.18/US$ on December 21, 1.6% stronger than on November 23 and the highest closing level since early September. A number of traders questioned whether recent levels would hold after year-end.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
NOV 12	52.030	52.090	84.5
13	52.086	52.090	92.9
14	52.141	52.090	66.5
15	52.044	52.045	111.7
16	51.994	51.920	81.6
NOV 19	52.046	52.160	75.5
20	52.149	52.070	70.3
21	52.046	52.035	71.5
22	51.976	51.940	109.5
23	51.982	51.990	65.5
NOV 26	51.897	51.890	110.0

27	51.995	52.040	82.0
28	52.024	51.965	91.4
29	52.020	52.000	100.0
30	Philippine holiday		
DEC 03	52.028	52.040	66.5
04	52.035	52.010	87.0
05	51.985	51.955	89.0
06	51.963	51.945	73.2
07	51.961	51.935	71.8
DEC 10	51.956	51.955	66.1
11	51.959	51.945	47.0
12	51.972	51.980	85.0
13	52.034	52.040	99.0
14	52.058	52.030	100.5
DEC 17	Philippine holiday		
18	51.820	51.570	91.8
19	51.477	51.350	138.5
20	51.240	50.850	152.7
21	51.153	51.180	129.8

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

After a 50 basis-point reduction on November 9, the Philippine Monetary Board -- the highest policy making body of the Bangko Sentral ng Pilipinas (BSP, the central bank) -- cut policy rates by a quarter of a percentage point effective December 7 and by another 25 basis points effective December 14. Policy rates have been slashed by a total of 725 basis points since December 2000. Overnight borrowing and lending rates now stand at 7.75% and 10%, respectively, the lowest since September 1995. The Monetary Board also slashed liquidity reserve requirements (i.e., reserves which earn market-based yields) by two percentage points effective December 7, as well as reduced rates paid on reverse repurchase arrangements. BSP officials said that declining inflation, a relatively stable foreign exchange rate, and interest-rate reductions by the Federal Reserve

Open Market Committee had provided monetary authorities leeway for further monetary easing.

Bid rates for government Treasury bills declined on strong demand during the weekly (Monday) primary-market auctions on November 26, December 3, and December 10 -- continuing the week-on-week declines seen on November 19. Influenced by a positive inflation outlook and BSP interest-rate and monetary-easing measures, average rates for the 91-day and 182-day tenors had tapered to 8.787% and 9.892%, respectively, by December 10 -- their lowest since early July. By December 10, average rates for the 364-day bills had softened to 10.700% -- the lowest seen since early June. Bid rates inched up, however, during the December 19 regular weekly T-bill auction (the last auction scheduled for 2001). Treasury officials attributed the up-tick to some liquidity tightness (reflecting greater demand for cash during the Christmas season), as well as to banks' efforts to protect profit margins for yearend "window dressing". The government's auction committee awarded the 91-day papers scheduled for sale (which rose by 8.6 basis-points week-on-week to 8.873%) but rejected all tenders for the 182-day and 364-day instruments.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
OCT 15	9.803	12.054	no sales
OCT 22	9.918	12.179	13.062
OCT 29	no sales	no sales	no sales
NOV 05	no sales	no sales	no sales
NOV 12	9.811	11.702	12.602
NOV 19	9.525	10.997	11.981
NOV 26	9.298	10.453	11.242
DEC 03	8.987	10.012	10.959
DEC 10	8.787	9.892	10.700
DEC 18	8.873	no sales	no sales

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
SEP 20	12.8561	11.00 - 14.467
SEP 28	12.8915	11.00 - 14.577
OCT 04	12.9743	11.00 - 14.730
OCT 11	12.9524	11.00 - 14.730
OCT 18	12.0239	11.00 - 14.803
OCT 25	13.0653	11.00 - 14.918
OCT 31	13.0653	11.00 - 14.918
NOV 08	13.0831	11.00 - 14.918
NOV 15	13.0464	11.00 - 14.803
NOV 22	12.9449	10.75 - 14.803
NOV 29	12.8767	10.75 - 14.803
DEC 06	12.7426	10.50 - 14.298
DEC 13	12.4533	10.25 - 13.987
DEC 20	12.4334	10.25 - 13.873

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Although trading volumes remained thin, the Philippine Stock Price Index (Phisix) generally recorded further gains during the four-week trading period of November 26-December 21, buoyed by domestic interest-rate cuts, positive inflation numbers, and the peso's relative stability. Stock prices rose and fell responding to bargain-hunting and profit-taking, but, except for November 26, did not close lower than 1088.37 we reported on November 23. The Phisix closed at 1,145.97 on December 21, up 5.3% from November 23 and at its highest closing level since late September.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)

NOV 12	993.23	326
13	989.96	329
14	997.52	488
15	1,015.86	537
16	1,033.34	513
NOV 19	1,042.02	419
20	1,025.47	464
21	1,033.86	570
22	1,067.06	708
23	1,088.46	495
NOV 26	1,088.37	527
27	1,124.40	446
28	1,120.57	636
29	1,128.47	584
30	Philippine holiday	
DEC 03	1,105.06	397
04	1,096.55	362
05	1,121.97	470
06	1,133.34	1,112 a/
07	1,130.20	409
DEC 10	1,120.83	381
11	1,116.56	231
12	1,108.62	356
13	1,107.73	356
14	1,126.01	570
DEC 17	Philippine holiday	
18	1,124.40	446
19	1,129.41	579
20	1,139.87	372
21	1,145.97	532

a/ Includes P606 million block sale (Jollibee Food Corp.)

Source: Philippine Stock Exchange

THIRD-QUARTER GDP UP 2.9% YEAR-ON-YEAR

The Philippines' Gross Domestic Product (GDP) expanded by 2.9% year-on-year in real terms during the third quarter of 2001, the slowest rate of expansion registered since the second quarter of 1999. Government economic planning officials nevertheless emphasized that the slower growth rate still compared favorably with the declines in economic output posted by more trade-dependent countries such as Singapore, Malaysia, and Taiwan.

Personal consumption (up 3.3%) slowed from its third-quarter 2000 growth rate (3.7%) but nevertheless provided the major impetus to economic growth on the demand side. Capital formation also contributed with an 8.4% third-quarter year-on-year increase -- the highest growth rate in seven quarters due mainly to a net build-up in inventories. These factors offset year-on-year declines in government consumption (reflecting austerity efforts to keep the fiscal deficit in check) and in net exports (hard-hit by the global economic and electronics demand slump).

On the production side, all three major sectors -- agriculture, industry, and services -- posted slower rates of expansion compared to their respective third-quarter 2000 growth rates. Of the three sectors, only services bettered its second-quarter 2001 growth performance, reflecting higher growth in the transport/communications and trade sub-sectors (up 7.3% and 6.6%, respectively). Analysts and businessmen observed that many manufacturers and trading establishments resorted to price cuts and promotions to prop up demand and keep inventories moving. Meanwhile, overall industrial sector output decelerated to 1.6% growth year-on-year as the manufacturing sub-sector -- weighed down by export-oriented industries -- sputtered to its slowest rate of expansion since 3Q 1999. With private sector activity still in the doldrums and sustained public sector activity held back by fiscal constraints, the construction sub-sector failed to match its 4% second-quarter 2001 expansion and slowed to a 1.9% third-quarter 2001 year-on-year growth rate.

On a cumulative nine-month basis, real GDP expanded by 3.1% year-on-year -- a full percentage below 2000's comparative growth rate. Government economic planners remain hopeful that growth will improve during the fourth quarter, at least enough for full year 2001 GDP to hit 3.3% growth (the lower end of the government's downwardrevised 3.3% to 3.8% targeted growth range). Private economists are less optimistic. Looking ahead, they project a dim outlook for first-semester 2002 growth prospects. Many observers have noted that the public sector will bear the brunt of the burden for stimulating growth during the early part of 2002. Success would depend on the state of government finances and on the government's ability to accelerate utilization of official development assistance funds.

GDP AND GNP BY INDUSTRIAL ORIGIN AND EXPENDITURE SHARES
(Year-on-Year Growth Rates, In %)

	2000			2001		
	Q2	Q3	Q1-Q3	Q2	Q3	Q1-Q3
GDP	4.3	4.6	4.1	3.2	2.9	3.1
GNP	4.4	4.5	4.2	4.2	3.7	3.7
By Industrial Origin						
Agri, Fishery, & Forestry	4.5	5.9	3.4	3.0	2.0	2.9
Industry	3.5	3.6	3.8	3.0	1.6	2.1
Mining	9.1	0.5	9.5	13.2	(8.3)	(3.4)
Manufact.	6.2	6.1	6.1	2.4	1.7	2.4
Construction	(8.6)	(7.0)	(6.8)	4.0	1.9	0.7
Utilities	4.3	3.4	4.1	2.7	3.3	3.3
Services	4.9	4.9	4.6	3.5	4.2	4.0
Transport & Communic.	10.9	10.7	9.7	7.1	7.3	8.2
Trade	6.5	6.5	5.9	4.5	6.6	5.6
Finance	1.9	1.3	1.2	1.0	0.1	0.6
Real Estate	1.6	(0.2)	1.1	(0.6)	(0.3)	(1.2)
Private Serv.	4.3	4.1	4.5	3.8	4.1	4.2
Gov't Serv.	(0.5)	1.7	1.0	1.5	0.6	1.4
By Expenditure Share						
Personal Consumption	3.2	3.7	3.3	3.0	3.3	3.3

Government Consumption	(1.2)	0.2	(2.4)	(2.4)	(3.5)	(1.1)
Capital Form.	1.2	2.0	1.2	2.0	8.4	5.1
Fixed Cap.	1.0	(0.7)	0.2	(0.5)	3.1	1.2
Construct	(4.6)	(7.6)	(5.5)	4.3	0.8	0.8
Change in Stocks (Billion Pesos)	(1.8)	(2.0)	(3.3)	(1.8)	1.0	2.7
Exports	16.0	17.4	15.2	(3.9)	(3.6)	(0.9)
Merchandise	20.7	21.1	19.3	(3.3)	(2.0)	1.1
Non-Factor Services	(4.0)	(2.0)	(3.1)	(7.0)	(13.8)	(11.7)
Less: Imports	(3.7)	(1.8)	(1.4)	9.8	10.1	8.2
Merchandise	2.6	5.7	5.5	12.4	10.3	10.3
Non-Factor Services	(38.6)	(50.4)	(39.4)	(14.6)	7.8	(11.6)

Source: National Statistical Coordination Board

NOVEMBER YEAR-ON-YEAR INFLATION SLOWS TO 16-MONTH LOW

Year-on-year inflation, which has been decelerating since August, averaged 6.3% during the first eleven months of the year. With no significant upward pressures expected on overall price levels until year-end, the average consumer price inflation rate for the 2001 full year is expected to end 2001 in the lower end of the government's targeted 6% to 7% range.

Month-on-month, November 2001’s consumer price index (CPI) increased by 0.2%, somewhat higher than the 0.1% rate posted in October due in part to pre-Christmas holiday spending. Except for the services index, all other major indices posted higher month-on-month rates than in October. The food and beverage index accelerated from -0.1% to 0.1%; clothing from 0.1% to 0.3%; housing and repairs from 0.2% to 0.6%; fuel, light and water from 0.4% to 0.5%; and miscellaneous items from 0.1% to 0.2%. November 2001’s 0.2% month-on-month inflation rate nevertheless represented a marked deceleration from that posted in November 2000 (1.2%).

On a year-on-year basis, inflation slowed to 4.4% in November, a sixteen-month low. All major indices posted slower year-on-year increases compared to October 2001's CPI increase: food and beverages (2.6% from 3.9%); clothing (3.4% from 3.5%); housing and repairs (6.8% from 6.9%); fuel, light, and water (8.4% from 9.3%); services (7.3% from 9.1%); and miscellaneous items (3.2% from 3.5%). Year-on-year inflation had been expected to slow towards the fourth quarter as prices came off a relatively high 2000 base (during which foreign exchange and oil price-related price adjustments had accelerated).

PHILIPPINE CONSUMER PRICE INFLATION
(IN %)

	Year-on-Year	Month-on-Month
Jan 2000	2.6	0.5
Feb	3.0	0.4
Mar	3.4	0.1
April	3.7	0.2
May	4.2	0.4
Jun	3.9	0.7
Jul	4.3	0.5
Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Dec	6.6	0.7
Average		
Jan-Nov	4.1	
Jan-Dec 2000	4.4	
Jan 2001	6.9	0.8
Feb	6.7	0.2
Mar	6.7	0.1
Apr	6.7	0.3
May	6.5	0.1
Jun	6.7	1.0
Jul	6.8	0.6
Aug	6.3	0.2

Sep	6.1	0.2
Oct	5.4	0.1
Nov	4.4	0.2
Average Jan-Nov	6.3	

Source: National Statistics Office

OCTOBER EXPORT RECEIPTS FALL 13.5% YEAR-ON-YEAR

Recently-released merchandise export statistics show that exports continue to perform poorly, hit hard by the economic slowdown in the United States and Japan and by the weak global demand for electronic products. According to the National Statistics Office (NSO), October 2001 export receipts dipped by 13.5% year-on-year to $2.9 billion -- following on year-on-year declines posted in February (-3.4%), March (-4.0%), April (-15.8%), May (-11.4%), June (-23.4%), July (-19.4%), August (-25.8%), and September (-22.0%). Receipts from shipments of electronic components (which slumped by 26% in US$ terms) also shrank year-on-year for the eighth month in a row. Cumulatively, January to October export revenues declined by 14% from 2000's comparable ten-month level, with receipts from electronics (58% of total export revenues) down 23.2%.

Merchandise exports to the United States (the Philippines' largest export market) accounted for 28.2% of total export receipts during the first ten months of the year but suffered a 18.4% decline from 2000's comparable level. With hopes for a rebound in external markets during the rest of 2001 vanished, full-year export revenue -- which slowed to a single-digit growth rate in 2000 -- is headed for a year-on-year contraction for the first time since 1985.

PHILIPPINE MERCHANDISE EXPORTS
(In US$ Millions)

	January – October 2000	January – October 2001	Growth (%)

TOTAL EXPORTS	31,265.1	26,872.8	(14.0)
Agro-Based Products	1,371.5	1,282.4	(6.5)
Forest Products	32.2	20.5	(36.3)
Mineral Products	520.8	459.0	(11.9)
Petroleum Products	336.4	193.1	(42.6)
Manufactures	28,202.5	23,931.5	(15.1)
Electronics Components a/	20,231.9	15,537.4	(23.2)
Others (mainly re-exports)	801.7	986.3	23.0

a/ Microcircuits, semiconductors, input/output/peripheral units, other electronics components

Source: National Statistics Office

OCTOBER IMPORT BILL SLUMPS 16.9% FROM PREVIOUS YEAR

According to latest figures released by the government's National Statistics Office (NSO), September 2001's merchandise import bill (US$ terms) dipped by 16.9% year-on-year, following through September's double-digit (15.9%) year-on-year drop. Like September, October saw imports decline year-on-year across major commodity groupings -- with raw materials and intermediate inputs (38.4% of the total import bill) down 19.4%; capital goods (38.7% of imports) off by 10.6%; fuel/petroleum products down by 33.9%; and expenditures for consumer goods off by 12.2%.

The drop in imports allowed the trade-in-goods account to eke out a $570 million surplus during October, despite a 13.5% year-on-year decline in export revenues. This followed through a $37 million merchandise trade surplus in August (which broke from four consecutive months of trade deficits) and a $232 million surplus in September. On a cumulative ten-month basis, the import bill contracted by 4.2% year-on-year versus a steeper 14% decline in export revenues. The cumulative January-

October 2001 trade surplus stood at $1.5 billion, less than a third of 2000's comparable ten-month level ($4.8 billion).

The government forecasts full year 2001 export revenues to drop by 15% and the merchandise import bill to contract by 3% to 4%. This expectation reflects a significant reversal from already downscaled July growth forecasts, when the Macapagal-Arroyo administration reduced its original export growth target from 4% to 1% and its forecasted import growth rate from 6% to 3%.

PHILIPPINE FOREIGN TRADE PERFORMANCE
(FOB Value in Million US$)

	Exports	Imports	BOT
Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419
Mar	2,989	2,742	247
Apr	2,668	2,528	139
May	2,931	2,437	494
Jun	3,410	2,495	915
Jul	3,219	2,676	543
Aug	3,529	2,643	887
Sep	3,502	2,973	529
Oct	3,398	2,854	545
Jan-Oct 2000	31,265	26,482	4,784
Jan 2001	2,889	2,472	417
Feb	2,805	2,193	612
Mar	2,870	2,607	262
Apr	2,246	2,693	(447)
May	2,600	2,681	(81)
Jun	2,578	2,609	(31)
Jul	2,594	2,660	(66)
Aug	2,621	2,584	37
Sep	2,731	2,499	232
Oct	2,941	2,371	570
Jan-Oct 2001	26,875	25,369	1,506
Cumulative Year-to-Year Growth (%)	(14.0)	(4.2)	(77.9)

Source: National Statistics Office

BANKS’ NPL RATIO INCHES UP TO 18.81% AS OF OCTOBER

After easing in September, the commercial banking system's ratio of non-performing loans (NPLs) to total loans inched back up in October to hit a new post-Asian crisis high of 18.81%. The higher NPL ratio reflected a 3.39% (P9.6 billion) month-on-month increase in the nominal level of past-due accounts, which combined with a 1.49% (P23.5 billion) contraction in banks' total loan portfolio. As of October 2001, total loans (inclusive of inter-bank credits) were down 5% year-on-year and down 4.9% from the end-2000 level. Restructured loans (without which NPL ratios would be higher) increased by 1.8% (nearly P2 billion) month-on-month and by 29.9% (P25.7 billion) from October 2000. Restructured accounts equaled 7.19% of commercial banks’ outstanding loans –- up from 6.96% in September, as well as from October 2000’s 5.26% ratio.

Foreclosed assets -- up by 1.6% (P2.4 billion) month-on-month and by 22.7% (P28 billion) year-on-year -- equaled 4.87% of commercial banking system assets as of end-October, up from 4.73% in September and from 4.01% a year before. Non-performing assets (NPAs, the sum of NPLs and foreclosed assets) expanded by 2.8% (P11.9 billion) month-on-month and by 17.4% (P65.6 billion) from 2000's comparable level to equal 14.25% of commercial banking resources (up from September 2001's 13.71% ratio and the year-ago ratio of 12.29%). Loan loss reserves did not keep pace with the nominal increase in NPL levels during the month -- resulting in a lower coverage ratio of 42.17% relative to September's 43.49% buffer.

Questions remain about whether NPL ratios have peaked, with loan growth sputtering and more businesses struggling with weak external and domestic markets. Looking forward, a continued deterioration in asset quality could increasingly constrict banks' margins, liquidity, and overall profitability. A number of banks are studying the use of asset management companies to clean up their non-performing accounts. Reflecting the need to address non-performing loan and asset portfolios, a number of bills have been filed in both houses of the

Philippine Congress seeking to establish a legal framework for the creation of "special purpose vehicles" and for investments in financial institutions' NPAs through asset securitization. While the initiatives are subject to further discussion and/or refinement (specifically tax and regulatory incentives), President Macapagal-Arroyo has included policy support for SPVs in her list of legislative priorities to the 12th Philippine Congress.

COMMERCIAL BANKS – SELECTED INDICATORS

	2001 Oct	2001 Sept	2000 Oct
In Billion Pesos			
Total Loan Portfolio (TLP) a/	1,549.1	1,572.6	1,631.1
Non-Performing Loans (NPL)	291.4	281.8	253.7
Loan Loss Reserves (LLR)	122.9	122.6	105.5
Restructured Loans (RL)	111.1	109.5	85.8
Foreclosed Assets (FA) b/	151.1	148.7	123.1
Non-Performing Assets (NPA) c/	442.4	430.5	376.8
Gross Assets (GA)	3,104.4	3,141.2	3,065.9
Selected Ratios (%)			
NPL/TLP	18.81	17.92	15.56
LLR/NPL	42.17	43.49	41.59
LLR/TLP	7.93	7.79	6.47
RL/TLP	7.19	6.96	5.26
FA/GA	4.87	4.73	4.01
NPA/GA	14.25	13.71	12.29

a/ Includes inter-bank credits
b/ Gross of allowance for probable losses
c/ Sum of NPLs and foreclosed assets

Source: Bangko Sentral ng Pilipinas

PRESIDENT MACAPAGAL-ARROYO CALLS FOR UNITY IN MEETING ECONOMIC CHALLANGES

At a “socio-economic summit” meeting of prominent Philippine Government and business leaders on December 10, President Macapagal-Arroyo called for unity in addressing severe economic and security problems, and highlighted US AID’s commitment to provide more assistance for Mindanao. The President and other top leaders signed a “national socio-economic pact” calling for specific actions to resolve the problems of terrorism, poverty, unemployment, and corruption. The meeting broke little new ground, but served to focus attention on the Administration’s economic agenda - while at the same time emphasizing the need for law and order. The most pressing challenge facing the President will be implementation of the many reform proposals. Of particular interest to the US were measures advocating the use of biotechnology in agriculture, reform of government procurement practices, and a more liberal aviation policy.